

#### STATE OF INDIANA

#### INDIANA UTILITY REGULATORY COMMISSION

PETITION OF SOUTHERN INDIANA GAS AND ) ELECTRIC COMPANY d/b/a VECTREN ENERGY DELIVERY OF INDIANA, INC. ("VECTREN SOUTH ELECTRIC") FOR (1) AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR ELECTRIC UTILITY SERVICE; (2) APPROVAL OF NEW SCHEDULES OF RATES AND CHARGES APPLICABLE THERETO; (3) INCLUSION IN ITS BASE RATES OF COSTS ASSOCIATED WITH CERTAIN PREVIOUSLY APPROVED QUALIFIED POLLUTION CONTROL PROPERTY PROJECTS; (4) AUTHORITY TO IMPLEMENT A RATE ADJUSTMENT MECHANISM TO TRACK ) INCREMENTAL CHANGES IN CERTAIN COSTS REVENUES RELATING TO GENERATING FACILITIES; (5) AUTHORITY TO IMPLEMENT A RATE ADJUSTMENT MECHANISM TO TRACK INCREMENTAL CHANGES IN NON-FUEL RELATED MIDWEST INDEPENDENT TRANSMISSION SYSTEM OPERATOR, INC. ("MISO") CHARGES AND TRANSMISSION PETITIONER'S REVENUE REOUIREMENT: (6) APPROVAL AS ALTERNATIVE REGULATORY PLAN PURSUANT TO IND. CODE § 8-1-2.5-6 OF A RETURN ON EQUITY TEST TO BE USED IN LIEU OF THE STATUTORY NET OPERATING INCOME TEST IN FUEL ADJUSTMENT' PROCEEDINGS; (7) APPROVAL OF REVISED DEPRECIATION ACCRUAL RATES: APPROVAL OF THE CLASSIFICATION OF PETITIONER'S FACILITIES AS TRANSMISSION OR DISTRIBUTION IN ACCORDANCE WITH THE ENERGY REGULATORY ) COMMISSION'S SEVEN FACTOR TEST; AND (9) APPROVAL OF VARIOUS CHANGES TO ITS TARIFF FOR ELECTRIC SERVICE INCLUDING ) INTERRUPTIBLE AND ECONOMIC ) DEVELOPMENT RIDERS.

#### FILED

APR 2 6 2007

INDIANA UTILITY
REGULATORY COMMISSION

CAUSE NO. 43111

# PREFILED TESTIMONY OF JOAN M. SOLLER ON BEHALF OF

#### THE INDIANA OFFICE OF

#### UTILITY CONSUMER COUNSELOR

**APRIL 2007** 

Respectfully submitted,

Randall C. Helmen, Attorney No. 8275-49 Deputy Consumer Counselor for State Affairs

#### CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing Indiana Office of Utility Consumer Counselor's Testimony and Exhibits has been served upon the following counsel of record in the captioned proceeding by electronic service on April 26, 2007.

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## OUCC SUPPLEMENTAL TESTIMONY of JOAN SOLLER Cause No. 43111 VECTREN ENERGY DELIVERY OF INDIANA, INC.

#### INTRODUCTION

1	Q:	Please state your name and business address.
2	A:	My name is Joan Soller, and my business address is Indiana Government Center
3		North, Room N501, Indianapolis, IN 46204.
4	Q:	By whom and in what capacity are you employed?
5	A:	I am employed by the Indiana Office of Utility Consumer Counselor (OUCC) as the
6		Director of the Electric Division.
7	Q:	Have you previously filed testimony in this Cause?
8	A:	Yes. On February 27, 2007, I filed direct testimony in response to Vectren's case in
9		chief. Specifically, I evaluated Vectren's proposed Energy Delivery Operations,
10		discussed Reliability Enhancement Programs and critiqued Vectren's proposed
11		GCRA and MCRA tracking mechanisms.
12	Q:	What is the purpose of your supplemental testimony?
13	A:	I will review and support the Stipulation and Settlement (Settlement or Agreement)
14		filed in this Cause between Vectren, the OUCC and the Intervenor Industrial Group
15		(IG).
16	Q:	Do you have any initial observations about the Settlement in general?
17	A:	Yes. First this Settlement was reached as a result of lengthy good faith negotiations

between all of the parties to this cause. The majority of the negotiations took place after all parties had filed their testimonies and all the parties were well informed of all the issues. Secondly, while each individual term is well supported by evidence, it should be pointed out that the Settlement taken as a whole is in the public interest. Finally, the Settlement filed in this case is 29 pages long and contains a detailed description of how the parties systematically resolved each issue. For that reason, I will not discuss each settlement term here, but will be available to answer questions at the evidentiary hearing in this Cause.

#### Please briefly describe the Settlement.

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The Settlement resolves all issues in this Cause. It describes in detail the agreement on the various pro forma adjustments to test year revenue and expenses. Additionally, Exhibit MSH-4S attached to the supplemental testimony of Vectren Witness Ms. Janice M. Barrett depicts Vectren's and the OUCC's respective cases-in-chief, Vectren's rebuttal position and the final compromised agreement of the parties on pro forma adjustments.

The Settlement provides for new base rates designed to produce additional operating revenue of approximately \$60.8 million. The residential customer facilities charge remains at \$5.50. The Parties through negotiations agreed on a return on equity (ROE) of 10.4% which is consistent with other electric utilities in the region.

The Settlement also addresses agreed amounts for employee hiring and training expenses, as well as depreciation and bad debt collection costs, regional

transmission cost recovery, and agreements regarding overall facilities maintenance expenses. The Agreement reduces the utility's proposed costs in these areas while keeping maintenance programs consistent with electric industry standards. Vectren has also agreed to provide regular reports to the IURC and the OUCC over the next three years regarding its progress and system reliability performance.

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Finally, the Agreement provides for (1) a new tracking mechanism which allows Vectren electric customers to share in cost savings related to emission allowances and wholesale power sales; (2) the creation of a safety education program that will focus on schools in Vectren's service territory; and (3) new customer service options including new payment options and additional training for customer service employees which were directly responsive to comments received by the Parties at the Public Field Hearing.

#### REVENUE REQUIRMENTS

- 14 Q: Are there specific revenue requirement adjustments agreed to in the Settlement 15 that you would like to address?
- Yes. I would like to comment specifically on (1) Vectren's maintenance programs and the impacts they will have on the reliability of their energy delivery system; and (2) Vectren's personnel and training needs on a going forward basis.
  - Q: What type of maintenance programs were addressed in this Cause?
- Vectren sought approval for Energy Delivery maintenance programs, including

  Substation inspection programs, underground and overhead facilities

  maintenanceprograms, and line clearance programs.

Q: What was the basis for the Agreement with respect to the Energy Delivery maintenance programs?

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Through considerable dialogue, the Parties were able to reach an agreement on the funding levels needed to adequately maintain Vectren's system integrity, maximize existing investments and improve or upgrade its facilities. The OUCC suggested a more gradual implementation of these measures and was interested in actually seeing the results of these efforts on a going forward basis. We are very pleased that Vectren agreed to report progress on its maintenance programs and the subsequent reliability impacts semi-annually. We believe this is a critical component of the settlement and hope that other electric utilities in the State make similar commitments at the appropriate times.

Additional benefits of the Settlement pertaining to these issues include a commitment for regularly scheduled inspections, safety training for employees, two (2) additional line specialists to focus on maintenance task, transmission tower painting based on a cycle of ten (10) years, and substation breaker inspections based on cycles to comply with recently approved NERC Reliability Standards. The OUCC believes these programs, as designed through negotiation, strike a balance between what is needed to make immediate improvements to increase reliability, while encouraging accountability through direct progress reporting to the OUCC.

- What was the basis for the Agreement with respect to personnel needs of the Company?
- 22 A: Vectren proposed in its case in chief that it be permitted to hire an additional thirty-

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six (36) new employees as well as a number of apprentices in the power supply area in anticipation of the wave of retirements the Company expects in the near future. Again, through extensive discussion between the parties, we were able to reach an agreement that allows Vectren the flexibility to hire personnel needed to operate and maintain its system while doing so on a more gradual schedule to minimize the cost impact to its customers. The OUCC understands that Vectren plans to rely less on contracted labor and more on internal employees to accomplish work. As Ms. Hardwick stated in rebuttal testimony, some existing personnel resources will be shifted from capital work to operations and maintenance work.

The OUCC believes these additional personnel serve as part of a solution to concerns raised at the January 8, 2007 public field hearing about the lack of geographic familiarity on the part of contractors hampering service restoration efforts.

#### TRACKER MECHANISMS

Please briefly describe the Settlement as it pertains to the Generation Cost and Revenue Adjustment (GCRA).

First, the Parties agreed to rename the GCRA the Reliability Cost and Revenue Adjustment (RCRA). In essence, the OUCC had no objection to the mechanism with respect to the tracking of costs and revenues which will vary annually which the Commission has historically permitted. The parties agreed to include the Wholesale Sales Credit for Off-System, Firm Municipal Contract Sales, Demand Costs for Purchased Power, Interruptible Sales Credit and Environmental Emission

Allowances. The OUCC opposed the tracking of chemical costs and, during negotiations Vectren agreed to exclude the chemical costs from the mechanism. The OUCC agrees with the Company's plans to separate Direct Load Control Credits from the RCRA, in a Demand Side Management Adjustment (DSMA), which is consistent with other Indiana utility rate treatment.

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The OUCC understands that the RCRA will likely result in credits to Vectren customers for the first several years due to the wholesale sharing mechanism, inclusion of credits for municipal contracts which will likely expire in 2008, and expected emission allowances. For these reasons, this term of the Settlement is in the public interest.

#### Please describe the wholesale power sale margin sharing mechanism.

This portion of the Settlement is explained in more detail in the supplemental testimony of Vectren Witness Mr. Jerome Benkert; however, it is my understanding that the Agreement is consistent with past Commission orders. In essence, there is a \$10.5 million offset to Revenue Requirements which represents the pro forma level of wholesale power sale margins agreed to by the parties. Any annual increase or decrease in that amount will be shared between shareholders and ratepayers on a 50/50 basis. The OUCC believes this provides shared risk and reward for both the Company and ratepayers.

### Q: Briefly describe the Settlement as it pertains to the MISO Cost Recovery Adjustment (MCRA).

22 A: The MCRA will track non-fuel related MISO expenses and credits as they vary from

base rate levels semi-annually. The majority of the elements included mirror those included in the RTO tracker approved by the Commission for Duke Energy Indiana. In addition, the MCRA will include Schedule 26 charges and revenues, which facilitate cost allocation for transmission expansion known as Regional Expansion and Criteria Benefits (RECB). The mechanics of Schedule 26 are based directly on the FERC approved tariff.

Please describe how the inclusion of Schedule 26 charges and revenues in the Q: 7 MCRA is in the public interest.

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Long-term regional planning is a key benefit of the advent of MISO. Schedule 26 is expected to incent transmission infrastructure investment as a means to utilize footprint-wide generation and transmission assets throughout MISO most efficiently to meet demand and reliability needs of all end-users. Following an extensive analytical review process of all transmission projects, conducted by utility staff, MISO staff and stakeholders, the MISO Board of Directors approves those to be included for RECB cost-allocation treatment. The 80/20 cost allocation split between the MISO footprint and regional benefactors will compensate transmission owners for investments.

Through active participation in this process, the OUCC supports cost recovery for these expenses from ratepayers. All MISO market participants, including other Indiana utilities will incur Schedule 26 charges and receive related revenues. We believe the inclusion of this component indicates proactive planning for these developments. The OUCC expects future stakeholder review processes to provide a)

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1		a forum for input from the Commission and other interested Indiana parties, and b)
2		assurance of prudent decision making across the MISO footprint.
3	Q:	How will those projects not included for RECB cost allocation be treated?
4	<b>A:</b> ***	Non-RECB transmission projects will still undergo the MISO stakeholder review
5		process, but be treated as transmission investments have been through traditional
6		ratemaking. That is, plant assets will be booked for future inclusion in base rates.
7		RETURN ON EQUITY
8	Q:	How were the parties able to resolve the issue of an appropriate ROE?
9	A:	All three parties offered expert testimony on the appropriate ROE for Vectren at this
10		time. The conclusions ranged from Vectren's proposed 12%, modified to 11.75% on
11		rebuttal, to the IG's proposed rate of 9.8 %, to the OUCC's proposed 9.5%. Through
12		an exchange of information, discussion of risk reduction due to tracking mechanism,
13		and a review of ROEs being awarded to electric utilities around the country, it was
14		agreed that 10.4% was well within the range of reasonableness.
15 16	Q:	Vectren also proposed an ROE Earnings Test in this case. Was it adopted in this settlement?
17	A:	No. For various reasons the parties agreed to propose a continuation of the NOI test.
18		First, the OUCC believes that any discussion of moving away from the statutorily
19		prescribed method of computing the Earnings Test should take place in a forum
20		where all interested parties have notice and can participate. Second, Vectren's
21		concern that the NOI test will not allow it the opportunity to share in the profits of its

off-system wholesale power sales has been addressed separately. The Parties agreed

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that, for purposes of the Earnings Test \$3 million will serve as a buffer to allow the Company to earn Wholesale Power Margins (WPM) while it experiences a positive earnings bank as described in direct and rebuttal testimony of Mr. Benkert. Basically, if the Company earns in excess of its authorized net operating income and those overearnings are directly attributable to WPM, up to \$3 million, will not prompt returns to ratepayers for 4 years, or 16 FAC quarters. The OUCC expects this will serve as an incentive for the Company to actively pursue wholesale sales, which ratepayers share 50/50 above the \$10.5 million offset to revenue requirement in this case. Additionally, incenting the Company to pursue theses sales minimizes downside risks which are built into the WPM mechanism for ratepayers.

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#### **FUTURE RATE CASE**

Has Vectren agreed to a timetable for the filing of its next base rate case?

Yes. Vectren agreed to file a base rate case within 5 years of the date of the Final Order in this case. Given that it has been over a decade since Vectren last rate case, the OUCC believes this is in the public interest. Further, it will allow a timely review of the system maintenance projects as well as a review of MISO matters which will continue to evolve in the coming years.

#### RECOMMENDATIONS/CONCLUSIONS

Q: What action does the OUCC recommend to the Commission?

The OUCC recommends the Commission approve the Settlement as filed which serves the public interest by a) reducing the rate impact, b) encouraging operational

Public Exhibit No. 1-S Cause No. 43111 Page 10 of 10 reliability improvements, c) adding customer service payment options and service 1 personnel, and d) including a fair, but not excessive, return on equity to facilitates the 2 ability of the Company to attract capital required for necessary infrastructure 3 improvements. 4 Does that conclude your testimony? 5 Q: Yes. 6 A: